

Message Text

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ACTION ARA-14

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-05 H-02 INR-10
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SUBJECT: THE GOG TIGHTENS EXPENDITURES

REF: (A) GEORGETOWN 0335, (B) 77 GEORGETOWN 3373

SUMMARY: OVER THE LAST SEVERAL WEEKS, THE GOG HAS TAKEN
AUSTERITY MEASURES IN CONJUNCTION WITH THE REDEPLOYMENT
EXERCISE NOW UNDERWAY(REF. A) SUBSIDIES ON MANY CONSUMABLES
HAVE BEEN REMOVED. THE GUYANA NATIONAL SERVICE HAS ANNOUNCED
A 40 PERCENT CUTBACK IN ITS 1978 BUDGET. AT THE SAME TIME,
THE GOG HAS ANNOUNCED FISCAL MEASURES WHICH WILL TIGHTEN
CONTROLS ON EXPENDITURES OF GOVERNMENT AGENCIES AND WILL
RAISE REVENUES. END SUMMARY.

1. ON JANUARY 6, THE MINISTRY OF TRADE ANNOUNCED A 36
PERCENT INCREASE IN THE PRICE OF EVAPORATED MILK, AND A
14 PERCENT INCREASE IN FLOUR, AS A RESULT OF A DECISION TO
REMOVE SUBSIDIES ON THESE ITEMS, WHICH IN THE 1976 BUDGET
ACCOUNTED FOR G\$19.63 MILLION (US\$7.7 MILLION). IN THE CASE
OF MILK, PART OF THE INCREASE WAS ATTRIBUTED TO INCREASE IN
THE FOB PRICE OF EUROPEAN SUPPLIERS. REASON GIVEN FOR
REMOVAL OF SUBSIDIES WAS TO LOWER INCENTIVES FOR
SMUGGLING TO NEIGHBOURING COUNTRIES, WHICH HAS REDUCED
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LOCAL SUPPLIES OF THESE COMMODITIES, AND, SECONDLY, TO
CONSERVE FOREIGN EXCHANGE AND TO PROVIDE INCENTIVES FOR
LOCALLY PRODUCED SUBSTITUTES. ON JANUARY 19, BAKERS
AND MANUFACTURERS OF FLOUR BASED PRODUCTS WERE ALLOWED
TO PASS PRICE INCREASES ON TO CONSUMERS.

2. ON JANUARY 30, THE RICE BOARD WITHDREW THE CONSUMER

SUBSIDY ON RICE, WHICH WAS DESIGNED TO KEEP LOCAL PRICES BELOW WORLD PRICES. THE SUBSIDY HAD BEEN FINANCED BY EXPORT SALES. THE BOARD WILL CONTINUE TO SUBSIDIZE THE CONSUMER PRICE BY BEARING THE COST OF PACKING, STORAGE AND DISTRIBUTION. NEVERTHELESS, THIS ACTION TRANSLATES TO ABOUT A 90 PERCENT INCREASE FOR BULK RICE AND A 30 PERCENT INCREASE FOR THE PACKAGED PRODUCTS SOLD TO CONSUMERS. RECENTLY, RICE SHORTAGES HAD BEEN APPEARING THROUGHOUT THE COUNTRY. INVESTIGATIONS REVEALED WIDESPREAD SMUGGLING TO SURINAM AND "RECYCLING" OF GRAIN FROM CONSUMERS TO PRODUCERS AND BACK TO CONSUMERS TO SYPHON OFF MULTIPLE SUBSIDIES. RICE BOARD OFFICIALS HAVE TOLD EMMOFFS THAT THIS MEASURE WILL SAVE G\$5.0-6.0 MILLION (US\$1.96-2.36 MILLION).

3. IN A RADIO BROADCAST ON FEBRUARY 13, GUYANA NATIONAL SERVICE (GNS) CHIEF ANNOUNCED THAT GNS BUDGET IS BEING CUT BY 40 PERCENT TO G\$8.0 MILLION (US\$3.1 MILLION). ALL STAFF MEMBERS HAVE AGREED TO DONATE A MONTH'S SALARY TO BE DEDUCTED IN EQUAL INSTALLMENTS OVER TEN MONTHS AND TO FOREGO A 31 PERCENT PAY INCREASE DUE JANUARY 1. TO HELP SUPPORT ITSELF, THE GNS IN 1978 WILL TRY TO INCREASE PRODUCTION OF ITS TRAINING FARMS AND QUARRY, WITH THE LATTER EXPECTED TO GENERATE G\$3.0 MILLION (US\$1.1 MILLION) IN REVENUES.

4. ON JANUARY 25, THE MINISTRY OF FINANCE ISSUED A DIRECTIVE ABOLISHING THE USE OF PURCHASE ORDERS BY
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GOVERNMENT AGENCIES FOR PROCUREMENT OF GOODS AND SERVICES. GOVERNMENT AGENCIES MUST NOW PAY IN CASH, AS THE MINISTRY WILL NO LONGER ASSUME LIABILITY FOR PURCHASE ORDERS. A RECENT PRESS STORY IN THE GOG CONTROLLED "GUYANA CHRONICLE" REVEALED THAT PUBLIC CORPORATIONS IN THE GUYSTAC GROUP MAY NO LONGER EXTEND CREDIT TO EACH OTHER AND THAT INTER-COMPANY PURCHASES MUST BE IN CASH. RECENTLY, THE CASH POSITION OF MANY PUBLIC CORPORATIONS HAD BEEN UNDERMINED BY A SHARP INCREASE IN RECEIVABLES OWING BY GOVERNMENT AGENCIES WHICH WERE NOT ABLE TO PAY THEIR BILLS. INTER-COMPANY DEBT IN THE GOG-OWNED GUYSTAC GROUP HAS ALSO CREATED SEVERE PROBLEMS OF FINANCIAL MANAGEMENT. AS A RESULT MANY GUYSTAC FIRMS REPORTEDLY HAVE SOUGHT GOG GUARANTEES WHICH WOULD ENABLE THEM TO INCREASE THEIR LINES OF CREDIT WITH COMMERCIAL BANKS. THESE MEASURES SHOULD HELP REDUCE DEMAND FOR LOCAL BANK CREDIT WHICH IS NOW A POTENTIAL SOURCE OF INFLATIONARY PRESSURES,
SEE REF. B.

5. ON JANUARY 30, THE PARLIAMENT AMENDED THE TAX ACT TO REQUIRE ALL PERSONS EARNING MORE THAN G\$1,000 TO SUBMIT INCOME TAX RETURNS. FOR FOREIGN BASED COMPANIES, HEAD OFFICE EXPENSE ALLOWANCES WERE REDUCED FROM 7.5 PERCENT

TO 0.5 PERCENT OF SALES REVENUES.

6. COMMENT. DESPITE THESE TOUGH, POLITICALLY-DIFFICULT POSITIVE STEPS TO CONTROL EXPENDITURES, THE GOG WILL CONTINUE TO EXPERIENCE SEVERE BUDGETARY PROBLEMS FOR SOMETIME TO COME. AS THE ECONOMIC CRISIS DEEPENS, TAX COLLECTION MAY BECOME MORE DIFFICULT. RUMORS ARE CIRCULATING THAT REMAINING CONSUMER SUBSIDIES ON SUGAR, FEED GRAIN AND EDIBLE OILS WILL BE ELIMINATED ONCE THE BUDGET IS PRESENTED THE END OF FEBRUARY.
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